

FDIC State Profile

Spring 2004

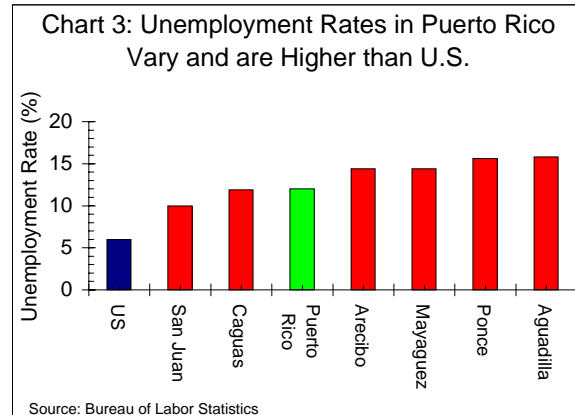
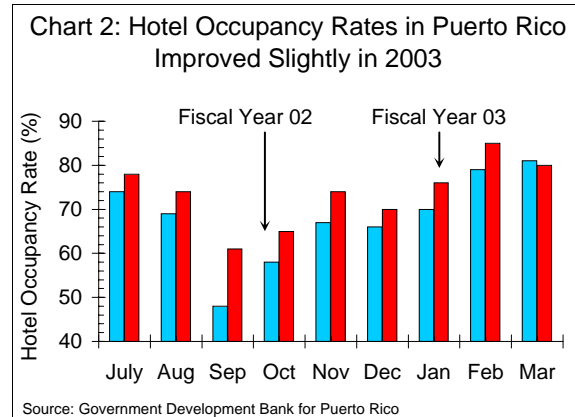
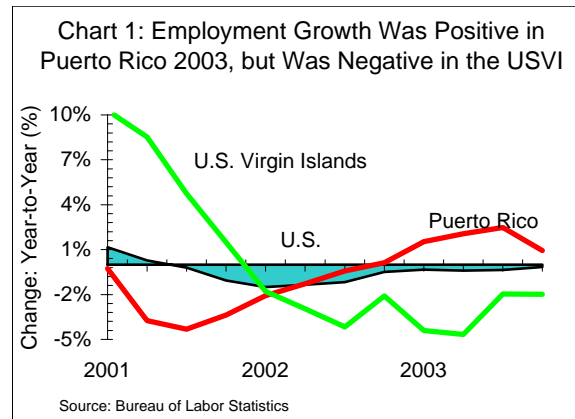
Puerto Rico and the U.S. Virgin Islands

Puerto Rico achieved slightly positive job growth in 2003. Job trends in the U.S. Virgin Islands (USVI) contracted during the year.

- Employment growth in Puerto Rico approximated one percent in 2003, the first positive gain in two years. The rate of job growth, however, declined in the fourth quarter. The rate of job contraction in the USVI eased in the second half 2003 (See Chart 1).
- The outlook for Puerto Rico's economy has improved in conjunction with the U.S. economy. Increased tourism and local government spending has aided the economy.
- Increased tourism has positive ripple effects across the Puerto Rico's economy. In 2003, hotel occupancy rates were slightly higher than 2002; further improvement is forecast in 2004¹ (See Chart 2). According to Caribbean Business, there are 50 new tourism projects in the pipeline.
- Manufacturing accounts for 40 percent of Puerto Rico's gross product, more than double the share for the U.S. While Puerto Rico has lost some labor-intensive manufacturing jobs, the island has gained capital-intensive, high-value sectors, including pharmaceutical jobs.
- Unemployment rates varied across Puerto Rico's metropolitan areas and exceeded the U.S. rate (See Chart 3). Areas less industrially diverse and having lower personal income levels, may struggle to keep pace with the rest of the island.

Economic conditions stagnated in the USVI in 2003; the local economy remains fragile.

- The US Virgin Islands ended 2003 on a negative note, as employment decreased 3.3 percent in 2003, following a 2.8 percent decline in 2002.
- USVI's tourism, which represents 60 percent of its economy, improved during 2003. Cruise traffic, which accounts for almost 75 percent of USVI tourism has been the strongest segment of tourism growth. There are



¹"Hotel Occupancy Reaches Highest Levels in Three Years." Caribbean Business. January 22, 2004.

State Profile

tentative plans to construct new gaming facilities, which may further bolster tourism.

- USVI's largest employer, Hovensa, while trimming jobs in 2003, may increase its workforce during the next two years. The company is expected to begin construction on a new plant this year, which could mean more jobs.

Credit quality among insured institutions headquartered in Puerto Rico/U.S. Virgin Islands improved in 2003, after weakening following the US recession.²

- Average loan delinquency rates for insured institutions headquartered in PRVI declined in fourth quarter 2003, falling to levels below one-year ago (See Chart 4).
- Improved credit quality reflected positive employment growth in 2003 and an improved outlook for the islands' economies. The loan charge-off rate increased in the second half of 2003, but remained below year-ago levels.
- After declining during 2002 and much of 2003, the average net interest margin (NIM) among insured institutions headquartered in PRVI rebounded in fourth quarter 2003.
- The NIM improved in fourth quarter 2003, aided by a steepening yield curve (See Chart 5). The asset yield stabilized following several years of decline, as intermediate- and long-term interest rates increased in the second half of last year. The average cost of funds declined for the sixth consecutive quarter, responding to low and declining short-term interest rates on a lagged basis.

Reliance on non-core funding remains well above the national average.

- Insured institutions headquartered in PRVI remain more reliant on market-rate sensitive, noncore funding than are U.S. mainland institutions. In fact, most of PRVI's insured institutions use brokered deposits for funding needs, well in excess of the figure for banks in the U.S. (See Chart 6). The higher reliance on non-core funding than the nation contributes to a higher average cost of funds for PRVI headquartered institutions.
- Raising low-cost, core deposits locally is challenging in Puerto Rico, as a result of the highly competitive banking market, relatively large unbanked population (estimates indicate that as much as 50 percent of Puerto Rican citizens are unbanked), and tax-advantaged alternatives to bank deposits.

Chart 4: Loan Quality Among Insured Institutions Headquartered in PRVI Improved in 2003

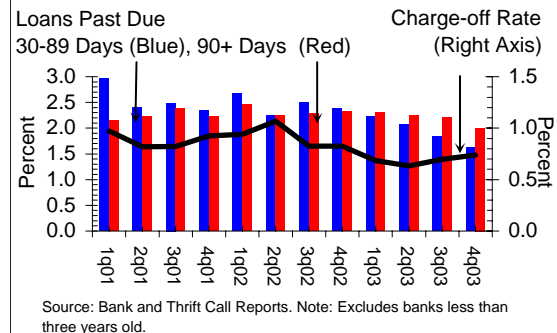


Chart 5: NIM Rebounds Modestly in Fourth Quarter 2003

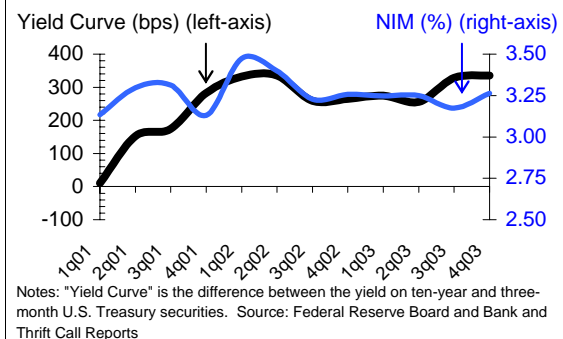
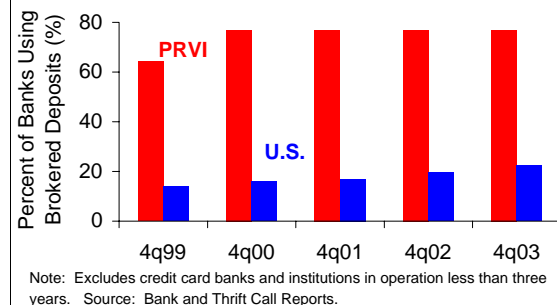


Chart 6: Most Insured Institutions Headquartered in PRVI Use Brokered Deposits for Funding Needs



Puerto Rico at a Glance

General Information	Dec-03	Dec-02	Dec-01	Dec-00	Dec-00
Institutions (#)	13	13	14	14	15
Total Assets (in thousands)	78,286,454	67,159,785	59,615,354	52,407,582	46,316,896
New Institutions (# < 3 years)	0	0	1	1	1
New Institutions (# < 9 years)	2	3	3	3	3
Capital	Dec-03	Dec-02	Dec-01	Dec-00	Dec-00
Tier 1 Leverage (median)	6.78	6.79	6.42	6.30	7.07
Asset Quality	Dec-03	Dec-02	Dec-01	Dec-00	Dec-00
Past-Due and Nonaccrual (median %)	4.80%	5.26%	5.95%	4.80%	5.49%
Past-Due and Nonaccrual >= 5%	6	8	10	5	10
ALLL/Total Loans (median %)	1.55%	1.24%	1.26%	1.22%	1.33%
ALLL/Noncurrent Loans (median multiple)	0.56	0.40	0.45	0.55	0.58
Net Loan Losses/Loans (aggregate)	0.69%	0.91%	1.00%	0.94%	0.88%
Earnings	Dec-03	Dec-02	Dec-01	Dec-00	Dec-00
Unprofitable Institutions (#)	2	1	1	2	
Percent Unprofitable	0.00%	15.38%	7.14%	7.14%	13.33%
Return on Assets (median %)	1.16	1.20	1.14	1.01	1.05
25th Percentile	0.64	0.36	0.64	0.67	0.69
Net Interest Margin (median %)	2.96%	3.24%	3.73%	3.78%	4.39%
Yield on Earning Assets (median)	5.35%	6.48%	7.77%	8.73%	8.16%
Cost of Funding Earning Assets (median)	2.36%	3.19%	4.31%	5.26%	4.21%
Provisions to Avg. Assets (median)	0.42%	0.61%	0.39%	0.43%	0.46%
Noninterest Income to Avg. Assets (median)	0.64%	0.55%	0.58%	0.63%	0.66%
Overhead to Avg. Assets (median)	2.23%	2.48%	2.41%	2.57%	2.99%
Liquidity/Sensitivity	Dec-03	Dec-02	Dec-01	Dec-00	Dec-00
Loans to Deposits (median %)	91.35%	90.97%	92.71%	90.72%	87.28%
Loans to Assets (median %)	54.92%	53.24%	58.55%	59.13%	58.52%
Brokered Deposits (# of Institutions)	10	10	11	11	10
Bro. Deps./Assets (median for above inst.)	13.72%	15.72%	10.23%	6.35%	9.10%
Noncore Funding to Assets (median)	59.74%	61.57%	61.87%	62.42%	57.93%
Core Funding to Assets (median)	26.28%	25.48%	29.39%	29.49%	32.61%
Bank Class	Dec-03	Dec-02	Dec-01	Dec-00	Dec-00
State Nonmember	12	12	13	13	13
National	0	0	0	0	0
State Member	1	1	1	1	1
S&L	0	0	0	0	0
Savings Bank	0	0	0	0	1
Stock and Mutual SB	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
San Juan-Bayamon PR PMSA	10	66,624,060	76.92%	85.10%	
No MSA	2	146,436	15.38%	0.19%	
Mayaguez PR	1	11,515,958	7.69%	14.71%	